

ECONOMICS

This course examines the allocation of scarce resources and the economic reasoning used by people as consumers, producers, savers, investors, workers, citizens and as agents of the government. Key elements include the study of scarcity, supply and demand, market structures, the role of government, national income determination, money and the role of financial institutions, economic stabilization, and trade.

At the high school level, Indiana's academic standards for social studies provide standards for specific courses that focus on one of the five content areas that make up the core of the social studies curriculum: history; government; geography; economics; and Individuals, Society and Culture (psychology, sociology and anthropology). One of these content areas is the major focus of the course while the other areas play supporting roles or become completely integrated into the course content. Supporting content areas are indicated in parentheses. Each high school course continues to develop skills for thinking, inquiry and research, and participation in a democratic society.

Standard 1 — Scarcity and Economic Reasoning

Students will understand that productive resources are limited; therefore, people, institutions and governments cannot have all the goods and services they want. As a result, people, institutions and governments must choose some things and give up others.

Standard 2 — Supply and Demand

Students will understand the role that supply and demand, prices, and profits play in determining production and distribution in a market economy.

Standard 3 — Market Structures

Students will understand the organization and role of business firms and analyze the various types of market structures in the United States economy.

Standard 4 — The Role of Government

Students will understand that typical microeconomic roles of government in a market or mixed economy are the provision of public goods and services, redistribution of income, protection of property rights, and resolution of market failures.

Standard 5 — National Economic Performance

Students will understand the means by which economic performance is measured.

Standard 6 — Money and the Role of Financial Institutions

Students will understand the role of money and financial institutions in a market economy.

Standard 7 — Economic Stabilization

Students will understand the macroeconomic role of the government in developing and implementing economic stabilization policies and how these policies impact the economy.

Standard 8 — Trade

Students will understand why individuals, businesses and governments trade goods and services and how trade affects the economies of the world.

Standard 1

Scarcity and Economic Reasoning

Students will understand that productive resources are limited; therefore, people, institutions and governments cannot have all the goods and services they want. As a result, people, institutions and governments must choose some things and give up others.

- E.1.1 Define each of the productive resources (natural, human, capital) and explain why they are necessary for the production of goods and services. (Geography)
- E.1.2 Explain how consumers and producers confront the condition of scarcity by making choices which involve opportunity costs and tradeoffs.
- E.1.3 Explain the important role of the entrepreneur in taking the risk to combine productive resources to produce goods and services.
- E.1.4 Describe how people respond predictably to positive and negative incentives.
- E.1.5 Explain that voluntary exchange occurs when all participating parties expect to gain.
- E.1.6 Compare and contrast how the various economic systems (traditional, market, command, mixed) answer the questions: What to produce? How to produce it? For whom to produce?.
- E.1.7 Describe how clearly defined and enforced property rights are essential to a market economy. (Government)
- E.1.8 Use a production possibilities curve to explain the concepts of choice, scarcity, opportunity cost, tradeoffs, unemployment, productivity and growth.
- E.1.9 Diagram and explain a Circular Flow Model of a market economy, showing households and businesses as decision makers, resource and money flows, and the three basic markets – product, productive resources and financial markets.

Standard 2

Supply and Demand

Students will understand the role that supply and demand, prices, and profits play in determining production and distribution in a market economy.

- E.2.1 Define supply and demand.
- E.2.2 Identify factors that cause changes in market supply and demand.

- E.2.3 Describe the role of buyers and sellers in determining the equilibrium price.
- E.2.4 Describe how prices send signals to buyers and sellers.
- E.2.5 Recognize that consumers ultimately determine what is produced in a market economy (consumer sovereignty).
- E.2.6 Demonstrate how supply and demand determine equilibrium price and quantity in the product, resource and financial markets.
- E.2.7 Demonstrate how changes in supply and demand influence equilibrium price and quantity in the product, resource, and financial markets.
- E.2.8 Describe how the earnings of workers are determined by the market value of the product produced and workers' productivity.
- E.2.9 Demonstrate how government wage and price controls, such as rent controls and minimum wage laws, create shortages and surpluses. (Government)
- E.2.10 Use concepts of price elasticity of demand and supply to explain and predict changes in quantity as price changes.
- E.2.11 Illustrate how investment in factories; machinery; new technology; and the health, education and training of people increases productivity and raises future standards of living. (Individuals, Society and Culture)

Standard 3

Market Structures

Students will understand the organization and role of business firms and analyze the various types of market structures in the United States economy.

- E.3.1 Compare and contrast the following forms of business organization: sole proprietorship, partnership and corporation.
- E.3.2 Identify the three basic ways that firms finance operations (retained earnings, stock issues and borrowing) and explain the advantages and disadvantages of each.
- E.3.3 Recognize that economic institutions, such as labor unions, nonprofit organizations and cooperatives, evolve in market economies to help members and clients accomplish their goals. (Government; Individuals, Society and Culture)
- E.3.4 Identify the basic characteristics of the four market structures: monopoly, oligopoly, monopolistic competition and pure competition.
- E.3.5 Explain how competition among many sellers lowers costs and prices.
- E.3.6 Demonstrate how firms determine price and output through marginal analysis.
- E.3.7 Explain ways that firms engage in price and non-price competition.
- E.3.8 Identify laws and regulations adopted in the United States to promote competition among firms. (Government)
- E.3.9 Explain the function of profit in a market economy as an incentive for entrepreneurs to accept the risks of business failure.
- E.3.10 Describe the benefits of natural monopolies (economies of scale) and the purposes of government regulation of these monopolies, such as utilities. (Government)
- E.3.11 Explain how cartels affect product price and output.

Standard 4

The Role of Government

Students will understand that typical microeconomic roles of government in a market or mixed economy are the provision of public goods and services, redistribution of income, protection of property rights, and resolution of market failures.

- E.4.1 Explain the basic functions of government in a market economy. (Government)
- E.4.2 Explain how markets produce too few public goods and how the government determines the amount to produce through looking at benefits and costs.

- E.4.3 Describe how the government taxing harmful spillovers* and subsidizing helpful spillovers helps to resolve the inefficiency they cause.
- E.4.4 Describe major revenue and expenditure categories and their respective proportions of local, state and federal budgets. (Government)
- E.4.5 Explore the ways that tax revenue is used in the community. (Government)
- E.4.6 Identify taxes paid by students. (Government)
- E.4.7 Define progressive, proportional and regressive taxation. (Government)
- E.4.8 Determine whether different types of taxes (including income, sales and social security) are progressive, proportional or regressive. (Government)
- E.4.9 Describe how costs of government policies may exceed benefits, because social or political goals other than economic efficiency are being pursued. (Government)
- E.4.10 Use an economic decision-making model to analyze a public policy issue. (Government)

* spillover: the impact of an activity (positive or negative) on the well-being of a third party

Standard 5

National Economic Performance

Students will understand the means by which economic performance is measured.

- E.5.1 Define aggregate supply and demand, Gross Domestic Product (GDP), economic growth, unemployment, and inflation.
- E.5.2 Explain how GDP, economic growth, unemployment and inflation are measured.
- E.5.3 Explain the limitations of using GDP to measure economic welfare.
- E.5.4 Explain the four phases of the business cycle (contraction*, trough*, expansion* and peak*).
- E.5.5 Analyze the impact of events in United States history, such as wars and technological developments, on business cycles. (History)
- E.5.6 Identify the different causes of inflation and explain who gains and loses because of inflation.
- E.5.7 Analyze the impact of inflation on students' economic decisions.
- E.5.8 Illustrate and explain cost-push and demand-pull inflation.

- E.5.9 Recognize that a country's overall level of income, employment and prices are determined by the individual spending and production decisions of households, firms and government. (Government; Individuals, Society and Culture)
- E.5.10 Illustrate and explain how the relationship between aggregate supply and aggregate demand is an important determinant of the levels of unemployment and inflation in an economy.
- E.5.11 Compare and contrast solutions for reducing unemployment. (Government)
- * contraction: phase of a business cycle in which the economy as a whole is in a decline; occurs after the business cycle peaks
 - * trough: the phase of the economy's business cycle that marks the end of a period of declining activity
 - * expansion: the phase when business activity surges
 - * peak: the highest point between the end of an economic expansion and the start of a contraction

Standard 6

Money and the Role of Financial Institutions

Students will understand the role of money and financial institutions in a market economy.

- E.6.1 Explain the basic functions of money.
- E.6.2 Identify the composition of the money supply of the United States.
- E.6.3 Explain the role of banks and other financial institutions in the economy of the United States.
- E.6.4 Explain how interest rates act as an incentive for savers and borrowers.
- E.6.5 Describe the organization and functions of the Federal Reserve System. (Government)
- E.6.6 Compare and contrast credit, savings and investment services available to the consumer from financial institutions.
- E.6.7 Demonstrate how banks create money through the principle of fractional reserve banking.
- E.6.8 Research and monitor financial investments, such as stocks, bonds and mutual funds.
- E.6.9 Analyze the difference in borrowing costs using various rates of interest when purchasing a major item, such as a car or house.
- E.6.10 Formulate a savings or financial investment plan for a future goal.

Standard 7

Economic Stabilization

Students will understand the macroeconomic role of the government in developing and implementing economic stabilization policies and how these policies impact the economy.

- E.7.1 Define and explain fiscal and monetary policy. (Government)
- E.7.2 Define the tools of fiscal and monetary policy. (Government)
- E.7.3 Describe the negative impacts of unemployment and unexpected inflation on an economy and how individuals and organizations try to protect themselves. (Individuals, Society and Culture)
- E.7.4 Explain how monetary policy affects the level of inflation in the economy.
- E.7.5 Analyze how the government uses taxing and spending decisions (fiscal policy) to promote price stability, full employment and economic growth. (Government)
- E.7.6 Analyze how the Federal Reserve uses monetary tools to promote price stability, full employment and economic growth. (Government)
- E.7.7 Predict possible future effects of the national debt on the individual and the economy. (Government)
- E.7.8 Predict how changes in federal spending and taxation would affect budget deficits and surpluses and the national debt. (Government)
- E.7.9 Explain how a change in monetary or fiscal policy can impact a student's purchasing decision.

Standard 8

Trade

Students will understand why individuals, businesses and governments trade goods and services and how trade affects the economies of the world.

- E.8.1 Explain the benefits of trade among individuals, regions and countries. (Geography; Individuals, Society and Culture)
- E.8.2 Define and distinguish between absolute and comparative advantage.
- E.8.3 Define trade barriers, such as quotas and tariffs. (Government)
- E.8.4 Explain why countries erect barriers to trade. (Government)
- E.8.5 Explain the difference between balance of trade and balance of payments.

- E.8.6 Compare and contrast labor productivity trends in the United States and other developed countries.
- E.8.7 Explain how most trade occurs because of a comparative advantage in the production of a particular good or service.
- E.8.8 Explain how changes in exchange rates impact the purchasing power of people in the United States and other countries. (Individuals, Society and Culture)
- E.8.9 Evaluate the arguments for and against free trade.
- E.8.10 Identify skills that individuals need to be successful in the global economy.